

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMM.

1415

COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

2008 JAN 18 P 5:16

DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS SUN CITY
WATER DISTRICT

DOCKET NO. W-01303A-07-0209

**NOTICE OF FILING LATE FILED
EXHIBIT**

Arizona Corporation Commission

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JAN 18 2008

DOCKETED BY

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NOTICE OF FILING LATE FILED EXHIBIT

Arizona American Water Company hereby provides notice of filing the late filed Exhibit
A-14, A-15 (Revised), and A-16 in the above-referenced matter.

RESPECTFULLY SUBMITTED on January 18, 2008.

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5 on January 18, 2008, with:

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7 Docket Control
8 Arizona Corporation Commission
9 1200 West Washington
10 Phoenix, Arizona 85007
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12 Copies of the foregoing **mailed** on
13 January 18, 2008, to:

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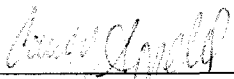
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**INVESTMENT POLICY CONCERNING FIRE FLOW INVESTMENTS IN
AMERICAN WATER'S REGULATED STATES****(AS OF DECEMBER 2007)**

While infrastructure improvements may occur in the AW system that are designed to improve fire flows, investments that may improve fire flows are not generally separately categorized as "fire flow" improvements. Fire flow improvements can result from many customary improvements to infrastructure, such as replacing and increasing the size of aged transmission and distribution mains, installing extensions or additions to provide interconnections for more efficient system flows, increasing storage capacity, improvements to enhance system reliability and security, and others. All such system enhancements can result in improvements in pressure and sustainability of fire flows in a particular area, but are often undertaken for other reasons as well, such as improving water quality and supply at the customers' premises.

Investments that improve fire flows are routinely considered and prioritized as part of a utility's (including Az. American) overall capital planning process, along with other system needs, so that limited capital budgets can be most effectively utilized. For example, new SDWA requirements or supply constraints may require costly capital investment to remain in compliance with mandated federal quality standards and to provide basic reliable drinking water service to customers. Improvements to fire flows must be evaluated against all other priorities, while considering the cost impacts on customers. It should be noted that investments that provide significant improvement to fire flows, including sustainability, could usually involve more than simply replacing hydrants, but could also require replacement of existing mains, constructing storage capacity and increasing sources of supply. These improvements must be evaluated in conjunction with all other system needs and cost impacts on customers.

To the best of our knowledge, no AW regulated affiliate has been required or mandated by a state regulatory commission to undertake specific improvements in fire flows in an existing community, other than what is generally required in statutes or rules pertaining to the provision of reliable service. Improvements to fire flows may have occurred in a number of areas, typically as a component of other scheduled system improvement projects. AW subsidiaries are willing to discuss with local officials in existing communities a desired level of fire protection capability, but such discussions will of necessity include consideration of other system needs and the costs to customers and municipalities to achieve particular capabilities.

The costs of fire flow improvements, as well as other capital investment costs throughout the AW system, have been recovered using a number of rate methods. For example, in Pennsylvania, improvements to existing infrastructure that would improve fire flows are

eligible for inclusion in a Distribution System Improvement Charge, which is a surcharge mechanism. Again, however, such improvements may not typically be categorized specifically as “fire flow” improvements. Similar infrastructure replacement surcharges are available in other states where AW utility subsidiaries have operations, such as Illinois, Ohio, New York, Indiana, and Missouri. In other states, where the costs of fire protection are specifically identified in a cost of service study, such charges may appear separately on a customer’s bill, pursuant to statutes and/or commission rules requiring such treatment. There may also be instances of municipalities or developers providing contributions in aid of construction. In other states, costs associated with fire flows and fire protection are recovered as a cost of service through traditional rate making methods. However, please note that “traditional” rate-making is defined differently in each state. For example, in some states future test years and single tariff pricing have long been permitted.

CALCULATION OF THE ESTIMATED BILL IMPACT OF THE FIRE FLOW PROJECT
THROUGH FCRM SURCHARGE

Line No.	Description		Phase 1 2009	Phase II 2010	Phase III 2011	Phase IV 2012
1	Original Cost of Plant - Hydrants		\$882,000	\$20,592	\$121,080	\$422,565
2	Original Cost of Plant - Mains		234,000	1,169,408	1,156,920	1,111,435
3	Subtotal		<u>\$1,116,000</u>	<u>\$1,190,000</u>	<u>\$1,278,000</u>	<u>\$1,534,000</u>
4	Depreciation Expense					
5	Hydrants @	2.00%	17,640	412	2,422	8,451
6	Mains @	1.53%	3,580	17,892	17,701	17,005
7	Subtotal		<u>\$21,220</u>	<u>\$18,304</u>	<u>\$20,123</u>	<u>\$25,456</u>
8	Depreciation Net of Tax [a]		\$13,029	\$11,239	\$12,356	\$15,630
9	Rate of Return		7.71%	7.71%	7.71%	7.71%
10	Required Operating Income [b]		\$86,044	\$177,793	\$276,326	\$394,598
11	Operating Income Deficiency [c]		\$99,073	\$202,061	\$312,950	\$446,852
12	Gross Revenue Conversion Factor		1.628	1.628	1.628	1.628
13	Revenue Deficiency		\$161,291	\$328,955	\$509,483	\$727,475
14	Unit Cost per 1,000 gallons [d]		\$0.0344	\$0.0702	\$0.1087	\$0.1552
15	Median Consumption = 6,500 gallons					
	at Company Proposed Rates		\$14.94	\$14.94	\$14.94	\$14.94
	with FCRM Surcharge		\$15.16	\$15.40	\$15.65	\$15.95
	Monthly FCRM Impact		\$0.22	\$0.46	\$0.71	\$1.01
	Percentage Increase		1.5%	3.1%	4.8%	6.8%
16	Average Consumption = 8,300 gallons					
	at Company Proposed Rates		\$17.38	\$17.38	\$17.38	\$17.38
	with FCRM Surcharge		\$17.67	\$17.96	\$18.28	\$18.67
	Monthly FCRM Impact		\$0.29	\$0.58	\$0.90	\$1.29
	Percentage Increase		1.7%	3.3%	5.2%	7.4%

[a] Depreciation Expense x (1 - Tax Rate) = 61.40%
Effective Tax Rate = 38.6%

[b] Cumulative Line 3 x Line 9

[c] Cumulative Line 8 + Line 10

[d] Line 13 / 4,688,598 1,000 gallons sold

STATUS OF LOW INCOME PROGRAMS IN THE AMERICAN WATER REGULATED STATES
(As of December 2007)

State	Existing Programs	Shareholder Fundings; Annual Amounts	Shareholder Funds Applied To?	Other Information
Arizona	No	Not Applicable	Not Applicable	New program request pending at ACC
California	YES	Yes; One Time \$250,000 Contribution	N/A	Once the one-time contribution is exhausted, customers fund low income program
Hawaii	No	Not Applicable	Not Applicable	
Illinois	YES	No	Not Applicable	
Indiana	No	Not Applicable	Not Applicable	
Iowa	YES	Yes; \$2400	Rate Discount to customers	
Kentucky	YES	Yes; \$20,000	Rate Discount to customers	Customer eligibility determined by agency approved by Company
Maryland	No	Not Applicable	Not Applicable	
Missouri	YES	\$80,000 One Time Contribution	Rate Discount and Administration Costs	Once the one-time contribution is exhausted, customers fund low income program
New Jersey	YES	Yes; Shareholder contributes up to \$25,000	Rate Discount and Administration Costs	Additional monthly discount funded by customer non-participants through rates and voluntary donations
New Mexico	No	Not Applicable	Not Applicable	
New York	No	Not Applicable	Not Applicable	
Ohio	YES	Up to \$5,000	Rate Discount to customers	Shareholder match of customer donations.
Pennsylvania	YES	Yes; \$150,000	Hardship grant to assist customers	65% discount in monthly basic service charge. Administration and rate discount recovered through rates.
Tennessee	YES	Yes; \$10,000	Rate Discount to customers	Customer eligibility determined by agency approved by Company
Texas	No	Not Applicable	Not Applicable	
Virginia	No	Not Applicable	Not Applicable	
West Virginia	YES	Yes; \$50,000	Rate Discount to customers	Customer eligibility determined by agency approved by Company